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SECRET

THE DEPUTY GOVERNOR

## FOREIGN EXCHANGE AND GOLD MARKETS

### Tuesday, 15th March 1983

The successful conclusion yesterday of the protracted OPEC conference lifted some of the uncertainty which had surrounded sterling for the past 10 days. It gave the pound a more robust tone which enabled it to withstand the ½% cut in base rates with only the briefest of tremors. The ERI rose 0.4 to 79.4. Meanwhile, the dollar, which had been weakening for much of the morning, firmed in the latter part of the day following a rather stronger rise in US industrial production in February than generally expected.

Sterling was in some demand in heavy trading in New York last night following the announcement of the OPEC agreement and it moved up strongly to close almost at its high, at 1.5252. Markets began to foreshadow a cut in base rates in the Far East and the pound opened in London this morning at 1.5165 and traded up slowly as the dollar eased in Europe. Within the first hour of business the rate had touched 1.52 on some good demand from Eastern Europe but, as rumours of a base rate reduction began to circulate widely, the pound began to give ground. With a UK oil company selling at this time, sterling fell back to 1.5150 in mid-morning and dropped to 1.5097 briefly after Lloyds announced the change. Once again, at the lower levels, strong professional buying was seen from Eastern Europe and the rate recovered to 1.5127 at noon against a weaker dollar. Little business was seen in sterling during the afternoon while dealers awaited the Budget but the dollar made good all of its morning losses elsewhere in Europe. Sterling closed at 1.5145 as the Chancellor launched into his Budget speech. After the close, while the Budget details came over the news services, the pound held steady while the dollar strengthened further in other centres. Three-month Euro-dollars were unchanged at 9¼% and the cost of forward cover narrowed to 1¼%.

The pound was firmer in some centres in Europe, gaining ½% in Germany (3.60⅝) and France (10.16¼) but it lost ⅜% in Switzerland (3.10) where the Swiss franc firmed following increases in time deposit rates. The dollar ended unchanged in both Frankfurt (2.3810) and Paris (6.71) but was 1% down in Zurich (2.0472). The French franc held top position in EMS by the close, 2 11/16% above the Danish crown (8.5875). The Belgians, who were top for much of the day, bought $17mn. ($8mn. in Danish crowns and the balance in punts), while the Italians sold $90mn., the Irish $46mn. (of which $20mn. was in Belgian francs and $19mn. in deutschemarks) and the Danes $16mn. The Swedes sold $115mn. and the Norwegians $12mn. The yen closed at 236.32.

Gold rallied on the OPEC news, reaching $440 in New York last night and again in London today. Its strength ebbed away as the day wore on and the fixings were at $436.50 and $434.50.

| | | | |
|---|---|---|---|
| Operations: | Market | + | $5mn. |
| | IDA | + | 8 |
| | Western Isles (PSB G'teed) | + | 5 |
| | Sundries | + | 2 |
| | | + | $20mn. |
| | Overnight | - | $4mn. |

15th March 1983.

TRS

# US BOND AND MONEY MARKETS

## Tuesday, 15th March 1983

### Federal Funds

| | |
|---|---|
| Opening: | 8¾% |
| Range: | 8⅝% - 8¾% |
| Close: | 8⅝% |

### US Governments

(NY close)

| | | | |
|---|---|---|---|
| 2-year: | 100 | (-⅛) | 9⅝% |
| 5-year: | 99⅜ | (-⅛) | 10% |
| 10-year: | 102⅜ | (-⅛) | 10½% |
| 30-year: | 97⅝ | (-⅛) | 10⅝% |

### Euro-dollars

(Today's London opening-middle rates)

| | |
|---|---|
| 7-day: | 9 1/16% |
| 1-month: | 9 3/16% |
| 3-months: | 9 5/16% |
| 6-months: | 9 7/16% |

### Federal Reserve Operations

$1bn. customer repurchase agreements with Fed Funds at 8⅝%. Stop rate 8.65%.

| | |
|---|---|
| 3-month Treasury Bills | 8 5/16% |
| 3-month US bank CDs | 8⅝% |
| Differential | 5/16% |

### Indicators

Industrial Production +0.3% (after a revised +1.3% in January)

### Comment:

After weakening slightly following the industrial production figures, the market traded in a narrow range for the balance of the day. In the late afternoon, the Treasury announced a $13½bn. refunding package to be auctioned next week - $5½bn. four-year notes, $4¾bn. 7-year notes and $3¼bn. 20-year bonds.

16th March 1983.

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